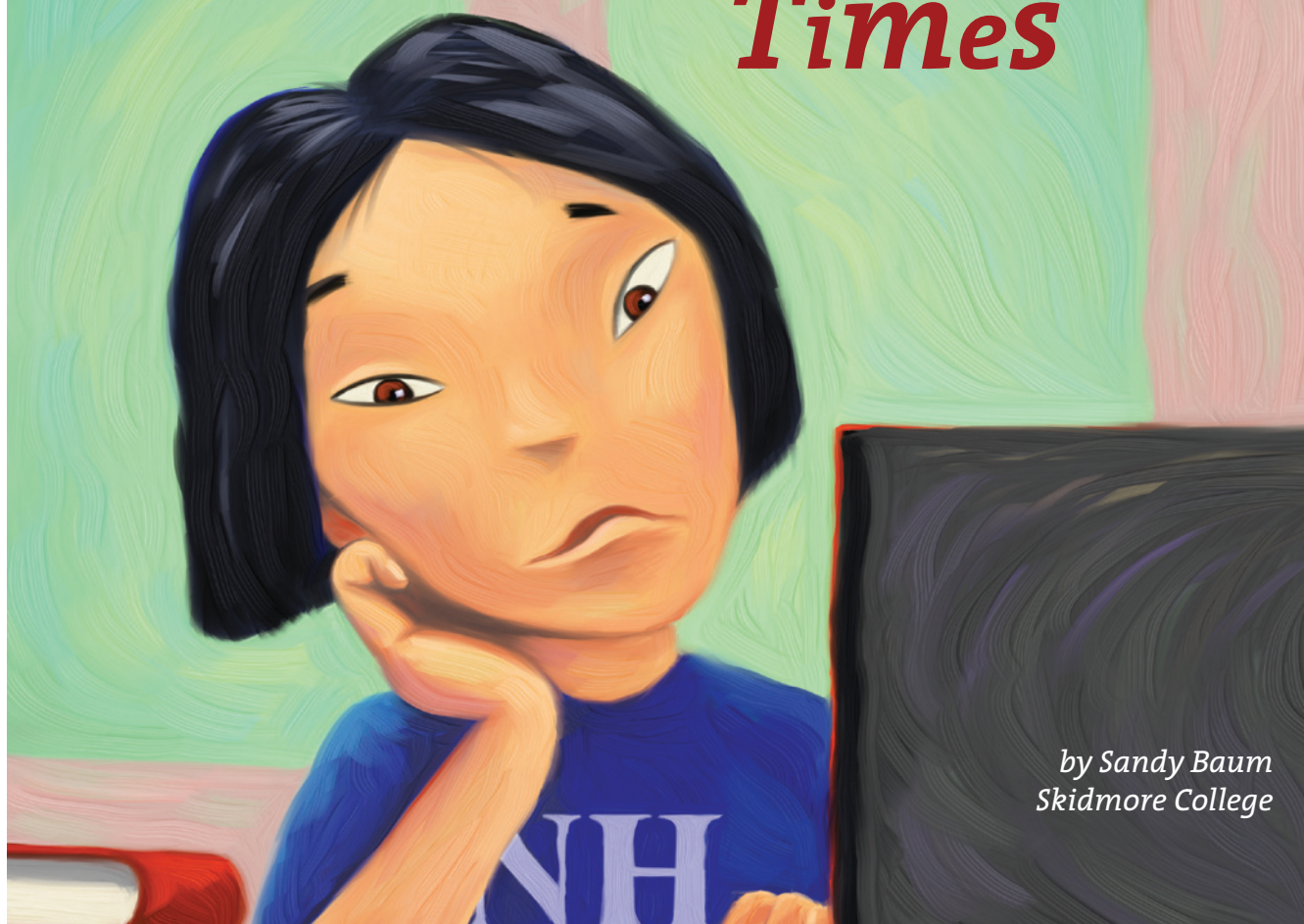


College Financial Aid

in Troubled Times



by Sandy Baum
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Illustration: Kirk Lytle

In the current economic environment, even routine expenditures are a challenge for increasing numbers of families. As credit has tightened, consumers have postponed major purchases. The price of big-ticket items such as housing, automobiles, and college often appears overwhelming.

Like consumer durables, college is an investment that pays off over time. But whereas an old car or refrigerator can be made to last a bit longer and buying a new residence can wait, postponing college means

facing a bleak labor market with minimal skills and delaying the earnings boost that a postsecondary education can provide. That is why college enrollments generally increase in weak economies despite anxiety about costs.

Facts on Costs

How can low- and moderate-income families meet the challenge of providing educational opportunities for themselves and their children in difficult times? Is college really as expensive as the headlines say? Are students drowning in debt?

Higher education is a unique purchase, and the available methods of financing are different from any others. The system is so complex that, for many, straightforward information may be the most important factor in paying for college.

Tuition

About 4,300 postsecondary institutions exist in the United States, with a wide range of prices. The average tuition and fees for the 2008-2009 academic year for in-state students at public four-year colleges amounted to \$6,585. Doctorate-granting universities charged an average \$7,307, compared with \$5,604 for baccalaureate colleges. In New England, the \$8,602 average price for four-year public institutions was significantly higher than the national average, and two-year public tuition and fees averaged \$3,698 annually, compared with \$2,402 nationwide. Within the region, Vermont had the

highest cost: its public four-year institutions charged an average of \$11,341. Rhode Island's charged an average of \$7,722. The point is, students may choose among institutions with a wide range of published prices—and financial aid often cuts the prices significantly. Final prices are virtually impossible for an individual student to predict.

Living Arrangements

Tuition, however, is not the whole story. Whether students enroll in public or private institutions, in two-year or four-year colleges, in-state or out-of-state, they must decide about such matters as where to live and part-time or full-time enrollment. For public college students who do not live at home, costs for housing, food, and clothing are likely to be significantly higher than tuition and fees. So even if college were free, many students who are unemployed or working only part-time would face financial barriers. And working full-time often means struggling academically.

Stated vs. Actual Cost

Potential students should understand that most enrollees do not pay the published price. Most receive grant aid from the federal government, from state governments, and/or from the colleges and universities themselves. Scholarships from private organizations are also available. As one low-income student realized in her sophomore year, "I didn't know how much help is out there. I thought only the smartest people or

the ones who speak good English get money. I learned you should just try. There's money that no one applies for." The first step in applying for most forms of student aid is completing the Free Application for Federal Student Aid (FAFSA).

Types of Financial Aid

To help students navigate the diverse array of options, it is useful to categorize financial aid both by type and by source. (See "Financial Aid for First-Time, Full-Time Students, 2006-2007.")

About three-quarters of beginning full-time students receive some form of financial aid. More than one-third receive grants from the federal government averaging over \$3,000. These grants go almost exclusively to low- and moderate-income students. About one-third of the students in public four-year colleges and almost three-quarters of those in private, nonprofit four-year colleges receive grants from their institutions. At private colleges, the grants averaged almost \$11,000 in 2006 to 2007 and grow larger every year. Fewer than half of all first-time, full-time students borrow each year, although a larger number borrow at some point in their college careers.

Grant aid is the most helpful, since it is "free" money. Tax credits and deductions don't have to be repaid either, but they are not available in time to pay the bills. Education loans provide necessary liquidity and may carry sizeable subsidies, but they allow students only to postpone payment. A rela-

Financial Aid for First-Time, Full-Time Students, 2006-2007

Average amounts and percent of students receiving

	Total	Public		Private nonprofit	For-profit		
		4-year	2-year	4-year	4-year	2-year	< 2-year
Any financial aid	73.30%	75.50%	61.20%	85.30%	55.40%	87.40%	81.80%
Federal grants	35.50%	26.60%	37.40%	25.80%	32.50%	61.30%	64.90%
	\$3,076	\$3,365	\$2,801	\$3,728	\$2,608	\$2,948	\$2,868
State/local grants	27.10%	36.70%	32.10%	30.40%	5.70%	12.10%	3.10%
	\$2,510	\$2,848	\$1,385	\$3,329	\$2,622	\$2,360	\$2,604
Institutional grants	29.00%	34.20%	11.30%	74.40%	8.40%	7.70%	7.50%
	\$6,423	\$3,759	\$1,301	\$10,797	\$1,878	\$1,504	\$384
Loans to students	45.10%	43.80%	18.80%	59.40%	52%	75.10%	66.20%
	\$5,084	\$4,433	\$2,889	\$5,558	\$6,989	\$6,190	\$5,220

Source: National Center for Education Statistics, Enrollment in Postsecondary Institutions Fall 2007, Graduation Rates 2001 and 2004 Cohorts, and Financial Statistics Fiscal Year 2007.

tively small number of students also receive work-study, which involves a job with part of the wages paid by government.

Another distinction is between need-based aid and aid distributed without regard to financial circumstances. Most grants are need-based, meaning that aid depends on student and parent financial circumstances, with the price of the school sometimes a factor. But many dollars from states and colleges are based on criteria such as academic credentials, athletic skill, and the like. Although low- and moderate-income students frequently benefit from non-need-based aid, it goes disproportionately to more affluent students. Federal Pell Grants, state need-based grants, and need-based institutional grants are the best opportunity for low- and moderate-income students. And sometimes the highest-price institutions have the most generous need-based programs. At Harvard, for example, close to 60 percent of students receive need-based scholarships, with the average total student aid package in 2009 to 2010 expected as of this writing to be more than \$40,000, about 75 percent of the total price.

About one-third of U.S. bachelor's degree recipients graduate without education debt, but most low- and moderate-income students borrow as part of their strategy for financing college. Unfortunately,

erably more than \$23,000.

It is ill-advised to discourage anyone from borrowing responsibly to invest in the most important lifetime opportunity. No one would expect to start a business without borrowing and paying off the debt gradually with the proceeds of the business. No one pays cash for a house, and few pay cash for a car. People assume they will pay these off over time. A college education has a better financial return than almost any other investment—not to mention benefits like life satisfaction, personal development, and health.

Fortunately, as of July 1, 2009, a federal Income Based Repayment plan ensures that students will not have to devote more than 15 percent of their discretionary income to federal student loan repayment. However, the new protection applies only to federal loans—not private loans—and borrowing should be in moderation. Grants are better. Also, students should compare the amounts they will pay at different schools because each school has its own aid policies, and the amounts are not necessarily correlated with published prices.

Options

Certainly low- and moderate-income students would be better off with a simpler student aid system, one better targeted at

2010. Federal student loans are more available than ever and have increasingly generous repayment terms. Similarly, many institutions are working to ensure that their financial aid budgets are maintained or increased in the midst of budget pressures.

Financing this investment can be a struggle for students and families even in good times. The system of college prices and student aid is unnecessarily complex and unpredictable. Providing more and better information and guidance while working to improve the system and increase available funding is critical to ensuring college access for low- and moderate-income students.

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Potential students should understand that most enrollees do not pay the published price. Most receive grant aid from the federal government, from state governments, or from the colleges and universities themselves.

ly, scary headlines about students struggling with debt may generate fear about any long-term financial commitment. Students need to understand that borrowing to finance an investment in themselves makes good sense.

Consider that among the approximately two-thirds of four-year degree recipients who graduated with debt, the average debt was about \$23,000 in 2007. For the typical college graduate, repaying \$23,000 over time is manageable. The borrowers in the headlines are the minority whose educational investment does not pay off as well as anticipated—or those who borrow consid-

those with the most-limited resources. To address that issue, the author and Michael McPherson of the Spencer Foundation recently chaired a Rethinking Student Aid study group. In September 2008, The College Board released the recommendations, which included eliminating the complicated financial aid form and relying on tax data; also simplifying the aid allocation formula so students and families would know well in advance how much federal aid to expect.

Students should not be discouraged from completing their education for lack of funds. For most, money is available. Federal Pell Grants are increasing dramatically in